

## Message Text

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PAGE 01 BONN 21003 01 OF 03 142223Z  
ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05  
CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04  
SIL-01 /102 W

----- 130173 /21

R 141742Z DEC 76  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 4076  
DEPARTMENT TREASURY  
INFO AMBAASSY BERN 2275  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 21003

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A  
TAGS: EFIN, GW  
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING DECEMBER  
13)

1. MONEY MARKET:  
THE GERMAN MONEY MARKET REMAINED VERY TIQHT DURING THE  
REPORTING PERIOD WITH CALL MONEY AT TIMES EXCEEDING THE  
LOMBARD RATE BY ALMOST 0.5 PERCENT. INCREASES IN BANK  
HOLDINGS OF RESERVES AT THE BUNDESBANK CONTRIBUTED TO  
THE HIGH LEVEL OF CALL MONEY INTEREST RATES EARLIER  
IN DECEMBER. CURRENTLY, DEMANDS FOR FUNDS TO PAY TAXES  
APPEARS TO BE PUTTING PRESSURE ON THE MONEY MARKETS.  
DURING THE REPORTING WEEK FRANKFURT INTERBANK RATES  
DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH THREE-MONTH  
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PAGE 02 BONN 21003 01 OF 03 142223Z

|        |         |      |      |
|--------|---------|------|------|
| DEC. 6 | 4.8-5.0 | 4.80 | 4.70 |
| 7      | 4.7-4.9 | 4.80 | 4.70 |
| 8      | 4.6-4.8 | 4.90 | 4.80 |
| 9      | 4.5-4.8 | 4.90 | 4.80 |
| 10     | 4.6-4.8 | 4.90 | 4.80 |
| 13     | 4.7-4.9 | 4.90 | 4.80 |

## 2. FOREIGN EXCHANGE MARKET:

THE DOLLAR WAS STABLE AGAINST THE DEUTSCHEMARK DURING THE PERIOD DECEMBER 6-14. INTEREST RATES FOR EURO-DM'S WERE ABOVE THE RATES FOR EURO-DOLLARS DURING MOST OF THE REPORTING PERIOD. FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

## FORWARD DOLLARS

SPOT DOLLARS (IN PCT. PER ANNUM)

OPENING FIXING CLOSING ONE-MONTH THREE-MOS

|        |        |        |        |      |      |
|--------|--------|--------|--------|------|------|
| DEC. 6 | 2.4050 | 2.3957 | 2.3937 | 0.8  | 0.L  |
| 7      | 2.3920 | 2.3952 | 2.4000 | 0.6  | 0.L  |
| 8      | 2.4000 | 2.3989 | 2.4000 | 0.4  | 0.L  |
| 9      | 2.3960 | 2.4000 | 2.3990 | -0.2 | -0.L |
| 10     | 2.3940 | 2.3964 | 2.3960 | 0.0  | 0.0  |
| 13     | 2.3935 | 2.3960 | 2.3970 | 0.4  | 0.L  |
| 14     | 2.3970 | 2.3976 | N.A.   | N.A. | N.A. |

## 3. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD DECEMBER 1-7 THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.4 BILLION TO DM 93.3 BILLION. FOREIGN EXCHANGE HOLDINGS DECLINED BY DM 695 MILLION AND SDR HOLDINGS BY DM 10 MILLION. FOREIGN LIABILITIES INCREASED BY ABOUT DM 270 MILLION AND GER-MANY'S IMF GOLD TRANCHE POSITION BY DM 11 MILLION. CREDITS GRANTED TO MONETARY AUTHORITIES OTHER THAN THE EUROPEAN FUND FOR MONETARY COOPERATION ROSE BY DM 565 MILLION. THE LATTER INCREASE APPEARS TO REFLECT THE GRANTING OF A CREDIT TO ITALY UNDER THE \$2.0 BILLION LINE RENEGOTIATED BY THE BUNDESBANK AND ITALY IN EARLY SEPTEMBER OF THIS YEAR.

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PAGE 03 BONN 21003 01 OF 03 142223Z

## 4. BANK LIQUIDITY:

IN THE PERIOD DECEMBER 1-7 BANK LIQUIDITY DECLINED BY DM 3.2 BILLION. THE BASIC FACTOR REDUCING LIQUIDITY WAS A DM 2.5 BILLION INCREASE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK MADE IN PREPARATION FOR THE SEASONALLY TIGHT MONTH OF DECEMBER. (ON DECEMBER 7 THE BANKS' BUNDESBANK RESERVES AMOUNTED TO DM 51.6 BILLION AS COMPARED WITH NOVEMBER RESERVE REQUIREMENTS

OF ABOUT DM 47 BILLION.) LIQUIDITY WAS FURTHER REDUCED  
BY A DM 0.6 BILLION INCREASE IN CURRENCY IN CIRCULATION  
REFLECTING CASH DEMANDS IN THE CHRISTMAS SEASON AND  
THE ABOVE MENTIONED DECLINE IN THE BUNDESBANK'S FOREIGN  
POSITION. OTHER FACTORS INCLUDING DM 0.1 BILLION OF

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PAGE 01 BONN 21003 02 OF 03 142245Z  
ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05  
CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04  
SIL-01 /102 W

----- 130551 /21

R 141823Z DEC 76  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 4077  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
AMCONSUL FRANKFURT

UNCLAS SECTION 02 OF 03 BONN 21003

BUNDESBANK SALES OF PUBLIC BONDS REDUCED LIQUIDITY  
BY DM 2.1 BILLION. THE ONLY FACTOR INCREASING LIQUIDITY  
WAS A DM 2.4 BILLION DECLINE IN OFFICIAL ASSETS HELD  
AT THE BUNDESBANK. NORMAL ASSETS OF THE FEDERAL GOVERN-  
MENT DECLINED BY DM 0.2 BILLION TO DM 0.5 BILLION,  
ASSETS OF THE STATE GOVERNMENTS BY DM 0.6 BILLION TO  
DM 2.7 BILLION AND BUNDESPOST ASSETS BY DM 1.3 BILLION  
TO DM 2.4 BILLION. THE FEDERAL GOVERNMENT'S SPECIAL  
ASSETS (DEPOSITS REMAINING FROM PREVIOUS COUNTERCYCLICAL  
OPERATIONS) HELD AT THE BUNDESBANK ALSO DECLINED BY

DM 250 MILLION. SPECIFICALLY THE CYCLICAL EQUALIZATION RESERVE FELL BY DM 200 MILLION TO PRACTICALLY ZERO AND THE STABILITY SURCHARGE DECLINED BY DM 50 MILLION TO DM 92 MILLION. (AS OF DECEMBER 7 THE FEDERAL GOVERNMENT'S SPECIAL ASSETS AT THE BUNDESBANK AMOUNTED ONLY TO DM 210 MILLION INCLUDING DM 117 MILLION OF FUNDS RECEIVED THROUGH THE INVESTMENT TAX.) BANKS FINANCED UNCLASSIFIED

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PAGE 02 BONN 21003 02 OF 03 142245Z

THE LIQUIDITY LOSS BY INCREASING REDISCOUNT BORROWINGS BY DM 1.0 BILLION TO DM 14.2 BILLION AND LOMBARD BORROWINGS BY DM 2.2 BILLION TO DM 7.4 BILLION.

#### 5. BOND MARKET:

ON THE BOND MARKET TRADING REMAINED CALM. ACCORDING TO THE PRESS AVERAGE CURRENT YIELDS OF DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY COMPARED WITH A MONTH AGO ARE AS FOLLOWS:

#### REMAINING MATURITY

| (YEARS) | 1    | 3    | 5    | 7    | 9    | 10   |
|---------|------|------|------|------|------|------|
| DEC. 11 | 5.20 | 6.65 | 7.10 | 7.30 | 7.50 | 7.55 |
| NOV. 15 | 5.20 | 6.85 | 7.25 | 7.45 | 7.70 | 7.75 |

THE FEDERAL GOVERNMENT REPORTEDLY PLANS TO OFFER A LOAN AT YEAR-END PROBABLY IN THE AMOUNT OF DM 1 BILLION. CONDITIONS ARE EXPECTED TO BE THE SAME AS THOSE OF THE LAST FEDERAL LOAN OFFERED ON NOVEMBER 25 (COUPON 7 1/4 PERCENT, ISSUE PRICE 99 1/2, MATURITY 10 YEARS, YIELD TO MATURITY 7.32 PERCENT).

#### 6. 1977 BUDGET:

FINANCE MINISTER APEL HAS LOWERED HIS TARGET FOR THE 1977 FEDERAL BUDGET FROM DM 173.2 BILLION TO DM 172 BILLION FOLLOWING THE ABANDONMENT OF PLANS TO INCREASE THE VALUE ADDED TAX IN 1977. HE ALSO HAS WARNED THAT FURTHER CUTS IN OTHER PARTS OF THE BUDGET MAY BE REQUIRED IF FEDERAL FINANCIAL ASSISTANCE WILL BE REQUIRED FOR THE SOCIAL INSURANCE SYSTEM. IN THE MEANTIME THE COALITION LEADERSHIP HAS WITHDRAWN PREVIOUS PLANS TO POSTPONE FOR 6 MONTHS THE NEXT SCHEDULED INCREASE IN SOCIAL INSURANCE PENSIONS AND INSTEAD AGREED TO (A) LOWER THE MINIMUM RESERVE REQUIREMENT OF THE PENSION FUND FROM THREE MONTH'S OUTLAYS TO ONE MONTH; (B) REDUCE THE PENSION FUND'S CONTRIBUTIONS TO THE MEDICAL INSURANCE PROGRAMS FROM 17 PERCENT TO 11 PERCENT OF THE OLD AGE PENSIONS (THIS LOWERS THE PENSION FUND'S OUTLAYS BY SOME 3 BILLION, BUT SHIFTS THE

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PAGE 03 BONN 21003 02 OF 03 142245Z

FINANCIAL BURDEN TO THE EQUALLY STRAPPED HEALTH  
INSURANCE); (C) POSTPONE THE NEXT INCREASE IN PENSIONS  
(AFTER THE NOW AGREED JULY 1, 1977 INCREASE) FROM  
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PAGE 01 BONN 21003 03 OF 03 142252Z  
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INFO OCT-01 EA-09 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05  
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COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04  
SIL-01 /102 W

----- 130638 /21

R 141837Z DEC 76  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 4078  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
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UNCLAS SECTION 03 OF 03 BONN 21003

JULY 1, 1978 TO JANUARY 1, 1979. IN ADDITION, THE  
FEDERAL GOVERNMENT NEXT YEAR WILL PROBABLY HAVE TO PRE-  
PAY SOME DM 3 BILLION AS PARTIAL PAYMENT OF A DEBT IT  
HAS TO THE PENSION FUND AND THE FUND WILL LIQUIDATE  
DM 3.7 BILLION OF ITS RESERVES TO HELP MEET THE LOOMING  
FINANCIAL GAP. THESE TWO MEASURES WILL, OF COURSE,  
INCREASE THE OVERALL DEFICIT OF PUBLIC BODIES AND

COUNTERACT CONTRACTIONARY EFFECTS IN OTHER PARTS OF  
THE PUBLIC BUDGETS.

7. POSSIBLE GOVERNMENT INVESTMENT PROGRAM READIED:  
ACCORDING TO WIDESPREAD LEAKS THE GOVERNMENT IS NOW  
IN THE PROCESS OF READYING A POSSIBLE INVESTMENT  
PROGRAM CONCENTRATING ON CONSTRUCTION PROJECTS.  
THE STAND-BY PROGRAM MAY BE ANNOUNCED IN THE GOVERN-  
MENT DECLARATION THIS WEEK OR IN THE JANUARY ECONOMIC  
REPORT AND IS TO BE IMPLEMENTED IN THE SPRING IF IT  
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PAGE 02 BONN 21003 03 OF 03 142252Z

THEN APPEARS THAT ECONOMIC GROWTH LAGS BEHIND THE 1977  
TARGET. ACCORDING TO LEAKS THE GOVERNMENT IS ALSO  
CONSIDERING FURTHER TAX INCNETIVES FOR INVEST-  
MENT, BUT AS OF NOW IT SEEMS PROBABLE THAT THESE WILL  
NOT BE PUT INTO EFFECT UNTIL 1978 TOGETHER WITH AN  
INCREASE IN THE VALUE ADDED TAX AND A REDUCTION IN  
SOME INCOME TAXES.

8. ECONOMIC INDICATORS PUBLISHED THIS WEEK:  
IN ITS JUST RELEASED DECEMBER MONTHLY REPORT THE  
BUNDESBK INDICATES THAT IN THE THIRD QUARTER OF 1976  
SEASONALLY, BUT NON-WORK DAY ADJUSTED GNP IN REAL TERMS  
INCREASED BY 0.5 PERCENT AS COMPARED WITH 0.5 PERCENT  
IN THE SECOND AND 1.5 PERCENT IN THE FIRST QUARTER.  
IN CURRENT PRICES GNP ROSE BY 2.0 PERCENT DURING THE  
THIRD QUARTER.  
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## Message Attributes

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**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 14 JUN 2004  
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**Review Exemptions:** n/a  
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Margaret P. Grafeld  
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US Department of State  
EO Systematic Review  
04 MAY 2006

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**To:** STATE TRSY  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006